

# ACCOUNTANCY

Published by  
The Society of Incorporated Accountants and Auditors  
Incorporated Accountants' Hall  
Victoria Embankment  
London, W.C.2

President: RICHARD A. WITTY, F.S.A.A.

Vice-President: FRED WOOLLEY, J.P., F.S.A.A.

Secretary: A. A. GARRETT, M.B.E., M.A.

Deputy Secretary: LEO T. LITTLE, B.Sc.

VOL. LIV (Vol. 5 New Series)

DECEMBER, 1942

Number 592

## CONTENTS

|   | PAGE |  | PAGE |  | PAGE |
|---|------|--|------|--|------|
| <b>PROFESSIONAL NOTES</b>                             |      | <b>II. The Case against Uniformity</b>     | 44   | <b>FINANCE</b>   |      |
| The Progress of the War ...                           | 39   | Some Topical Professional Problems ...     | 45   | The Month in the City ...                              | 55   |
| The Organisation and Control of the Civil Service ... | 39   | The Valuation of Farm Stocks ...           | 46   | Points from Published Accounts ...                     | 55   |
| Incorporated Accountants' Research Committee ...      | 40   | <b>TAXATION</b>                            |      | <b>LAW</b>   |      |
| Accountants and Accounts ...                          | 40   | ARTICLE: Control of Companies ...          | 48   | Legal Notes ...  | 56   |
| Paper Economy ...                                     | 40   | Farmers ...                                | 49   | The Emergency Acts and Orders ...                      | 57   |
| Employee Accountants' Guild ...                       | 40   | Estate Duty—Aggregation ...                | 49   | <b>SOCIETY OF INCORPORATED ACCOUNTANTS</b>             |      |
| New Policy for Industry ...                           | 41   | Interest on Estate Duty ...                | 49   | Incorporated Accountants as Lord Mayors and Mayors ... | 58   |
| Three Years' Savings ...                              | 41   | Married Women's Income Tax ...             | 49   | Council Meeting ...                                    | 58   |
| War Damage to Public Utilities ...                    | 41   | RECENT TAX CASES ...                       | 49   | The Society's Library ...                              | 58   |
| <b>EDITORIAL</b>                                      |      | <b>PUBLICATIONS</b> ...                    | 52   | Personal Notes ...                                     | 58   |
| Disclosure of Nominee Holdings ...                    | 42   | <b>ACCOUNTANTS AND ACCOUNTS</b> ...        | 53   | Removal ...  | 58   |
| <b>LEADING ARTICLES</b>                               |      | <b>AUSTRALIAN GOVERNMENT CONTRACTS</b> ... | 54   | Obituary ...   | 58   |
| Pros and Cons of Standardised Accounts—               |      |  |      |  |      |
| I. The Case for Uniformity ...                        | 43   |  |      |  |      |

## PROFESSIONAL NOTES

### The Progress of the War

Dramatic and rapid events in several theatres of war have occurred since our last issue and have stimulated encouragement and interest among the United Nations. We express our heartfelt appreciation to all members of the accountancy profession and students who are now serving with the Forces on one or other of the active fronts. The nation has been warned to take a proper measure of the heartening events, but it is to be hoped that further progress in the war will permit the profession to assume an active attitude towards problems relating to the welfare of the profession which the onset of peace will precipitate.

### The Organisation and Control of the Civil Service

The Sixteenth Report of the Select Committee on National Expenditure (H.C. 120, 1942, price 1s.) is an interesting document and reflects the thoroughness with which the Select Committee carries out its work and records its findings and recommendations. This Report deals with the organisation and control of the Civil Service. The Committee appreciated that under peacetime conditions different principles of recruitment and control obtained from those which have been applied during the rapidly changing circumstances of the last three years. Since the outbreak of war the Civil Service has undergone

rapid expansion effected by temporary appointments, which have included the recruitment of a large number of persons with professional and technical qualifications. Among the many facts recorded was the increase in the personnel of the Civil Service, including the Post Office. This increase amounts to 72 per cent., and if the Post Office figures were omitted, the personnel in the remaining Departments increased by 137 per cent., from 188,565 on April 1, 1939, to 447,422 on April 1, 1942. Criticism of the Civil Service has received considerable publicity, but too little recognition has been given to its successful work, about which the public receives but limited information. Individual citizens are now inevitably subject to many restraints and regulations administered by the Civil Service, and no doubt this induces a critical attitude on their part. Some of these detailed criticisms may be justified, but the problem as a whole involves questions of high policy and principle, and it is from this angle that the Select Committee has made its report.

Appendix II to the Report is a memorandum by Sir James Rae, K.C.B. (Treasury), of a review of professional and technical staffs in Government Departments. This review was carried out to enable the best possible use to be made of their services. Assessors selected from professional bodies were invited to collaborate with departmental authorities,

and Mr. Edward Baldry, F.S.A.A., Mr. Russell Kettle, F.C.A., Mr. E. Furnival Jones, F.C.A., F.S.A.A., and Sir Nicholas Waterhouse, F.C.A., were the assessors from the accountancy profession. The reports of the assessors were "for the most part severely practical." "No serious cases of extravagance were brought to light" and "there were not a few complaints from assessors of understaffing." The Select Committee expressed regret that the review co-ordinated by Sir James Rae did not receive at least a measure of the publicity accorded to the report of the Beveridge Committee on skilled men in the fighting services.

#### Incorporated Accountants' Research Committee

In the early days of 1940 the Society's Research Committee closed its portfolio in order that members might devote their whole energies to more pressing matters. The country is now three years nearer the date when post-war problems will call for solution, and in the words of a Member of Parliament, "it would be fatal for the future of this country and of the world if the solution of post-war problems was left to the aftermath of the Armistice." The Research Committee, which from the commencement has had the active co-operation of members of the Society engaged in practice and in commerce and industry, has therefore resumed its deliberations. The membership of the Committee is being extended by the co-option of additional research workers, and the Secretary of the Society will be glad to hear from further members who are prepared to assist in dealing with post-war problems affecting the accountancy profession. Mr. Richard A. Witty has been Chairman of the Committee since its formation in 1935. On his election as President of the Society, Mr. Witty felt he should resign the chairmanship, but he remains a member of the Committee. The Committee at a recent meeting expressed its appreciation of his services. Mr. Bertram Nelson has now been elected Chairman.

#### Accountants and Accounts

The article in *The Economist* of September 26 on "Accountants and Accounts" was discussed in an editorial in our November issue. The continuing interest in the problems of the form and contents of company accounts among members of the accountancy profession is amply proved by the correspondence columns of recent issues of *The Economist* and *The Accountant*. On page 53 of this issue we reproduce the form of profit and loss account which two Incorporated Accountants, Mr. F. Sewell Bray and Mr. Bertram Nelson, have suggested as a suitable minimum for publication. This was originally published in *The Economist* of October 31. Another interesting contribution to the discussion is the letter from Mr. Russell Kettle, F.C.A., contained in *The Accountant* of November 14. Mr. Kettle points out the difficulties of "joint action among auditors," suggested by *The Economist*, to impose upon directors duties which Parliament has not seen

fit to make compulsory. Professional accountants, as Mr. Kettle says, recognise their professional obligation to try by persuasion to remedy shortcomings in published accounts, but he puts forward the view that each auditor must act upon his own judgment based upon the particular facts and circumstances of each case, and individual auditors are not infallible judges of the shareholders' best interests where directors consider it advisable not to disclose information. The Civil Service auditors whose appointment was suggested by *The Economist* would not swerve one iota to amplify the letter of the law. Mr. Kettle hopes that more informative accounts may soon be secured by an amendment of the Companies Act to prescribe a minimum of requirements which experience has shown to be desirable, though he considers that complete standardisation would be impracticable. We present in this issue two articles on standardisation in accounts, which readers may be interested to peruse in the light of the opinions expressed by the protagonists in this useful discussion.

#### Paper Economy

The urgent need for every possible measure of economy in the use of paper has been stressed on several occasions in these columns. The Control of Paper (No. 48) Order, 1942 (S.R. & O., 1942, No. 1817), paragraph 10, lays down that "no person shall in the United Kingdom use or cause to be used in the printing or making of any document, leaflet, pamphlet, report, letter, or memorandum, any greater quantity of paper than such as is reasonably required for the printing or making thereof having regard to the purpose for which and the manner in which it is printed or made." It is essential in the national interest that this provision should be closely observed. In particular there is still opportunity for considerable economy in company reports and accounts by compression of matter and in the layout of accounts. Further, the Order applies to such minutiae as paper used for typewritten letters and copies of documents, e.g., where a document or a copy thereof would fill, say, about nine-tenths of one side of a quarto sheet, an octavo sheet should be used *both sides*.

#### Employee Accountants' Guild

We have received from the Secretary of the Employee Accountants' Guild a copy of the rules of the Guild, which was registered on October 7 last under the Trade Unions Acts. The rules set forth the constitution of the Guild and its objects. The objects include the general purpose of the Guild, which is to unite in its membership accountants, both men and women, employed in the profession and otherwise, and to negotiate fair minimum rates of remuneration for employee accountants and regulate relations between them and their employers. The membership of the Guild is open to those members of eight bodies of accountants—which are specified—who are in the employ of practising accountants or are employed in commerce, national



service or other undertakings in the capacity of accountant. The address of the Secretary of the Guild is 22, West Hill, Millfield Lane, London, N.6.

### New Policy for Industry

An important contribution to discussion of post-war reconstruction has been the publication of a memorandum, signed by 120 leading industrialists, setting out their proposals for a "National Policy for Industry." The kind of organisation they have in mind is one in which each section of industry would be represented by a sectional association to co-ordinate all producers in that branch. In turn, the sectional bodies would be represented on a central council, which would formulate the views of industry on questions transcending the limits of any one trade. It is recognised that a plan of this kind could not be effective if large numbers of producers remained outside, but the memorandum leaves open for further examination the question whether membership should be compulsory. The object of the associations, among other things, would be "to promote the production of a maximum output at the lowest possible price consistent with the adequate remuneration of labour and capital," to encourage "such forms of industrial competition as are conducive to the public interest" while discouraging "wasteful and destructive" competition, and to "establish contact with any bodies representative of the consuming public or sections of it and to take account of any representations which may be made in regard to the quality or price of manufactured products or their method of distribution."

Comments on the scheme have given full recognition to the progressive aims expressed by the signatories, and in particular to their willing acceptance of a generous programme of social security for industrial employees, including such things as minimum wages, health insurance, holidays with pay, family allowances and pensions. On the other hand, it has been pointed out that the plan seems to be deficient in safeguards against its possible abuse. Thus the compulsory enrolment of individual firms in trade associations having power to discipline members would seriously restrict freedom of enterprise. Moreover, the sectional associations themselves would represent closely-organised monopolies and the home consumer (though not, of course, the overseas customers of our export industries) would be deprived of the protection conferred by the power to buy elsewhere. It has been pointed out, too, that a body representative of the whole of industry would necessarily be immensely powerful, especially if it were able to act in concert with the T.U.C., so powerful that—in the words of *The Times*—it "might easily become a body strong enough in its own sphere to challenge the authority of Parliament."

### Three Years' Savings

The War Savings Campaign has now completed its third year. Taking into account only Savings Certificates, Defence Bonds and the increase in

savings accounts, the indications were that small savings in the year just ended would exceed £625 million, an increase of about £10 million on the year. Large savings, on the other hand, promised to be slightly smaller than the second year's total of £1,130 million. As between the first and second years of the campaign, of course, there was a very sharp expansion in subscriptions, from only £475 million in the case of small savings and £668 million in the case of large savings. At first sight, the absence of any similar expansion in the past twelve months may appear somewhat disappointing. It has to be remembered, however, that as the industrial war effort nears its peak the rise in expenditure becomes very much less rapid, while for some time past the finance of the war has been less expansionary than in the earlier phase. Thus, in the present financial year to date the deficit has been somewhat smaller, notwithstanding a 10 per cent. increase in expenditure and probably a considerably greater rise in that portion of expenditure "requiring domestic finance." It is true that the continued absorption of notes into circulation suggests that a certain amount of hoarding is going on, but on the whole Lord Kindersley can be well satisfied with the results achieved by his efforts and those of his army of voluntary helpers.

### War Damage to Public Utilities

Public utility undertakings were excluded from the scope of the War Damage Act, 1941, and it was announced that a separate Bill would be introduced after consultations with representatives of the undertakings. These consultations are not yet complete, but the general principles which it is proposed to follow are outlined in a recent white paper (Cmd. 6403) on "War Damage to Public Utility Undertakings, etc." It is considered that some of the undertakings excepted from Part I by Section 40 of the War Damage Act might appropriately be covered by the general scheme. A narrower range of public utility undertakings will need far-reaching modifications of the ordinary provisions, while others, to be known as "extensive undertakings," will need relatively minor modifications. Nine groups of public utility undertakings are proposed, viz., Railway, Canal, Dock and Harbour, Lighthouse, Gas, Electricity, Sewerage, Sewage Disposal, and Water. Public utility contributions are to be assessed on the principle that the aggregate contributions of each group should cover half the estimated total payments to undertakings in the group in respect of war damage, both land and goods being covered in the same scheme. The aggregate group contribution would be payable by the various undertakings in proportions to be determined by a body or bodies representative of the group, subject to approval by the Treasury. There will be four interim instalments and a final instalment. Public utility payments by the Commission would be classed as payments of outlay and value payments. A payment of outlay would be either the full cost of repair, or the cost of replacement subject to a deduction in respect of depreciation and obsolescence.

# ACCOUNTANCY

*Formerly the Incorporated Accountants' Journal  
Established 1889*

*The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 0d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2*

## DISCLOSURE OF NOMINEE HOLDINGS

An interesting experiment in limiting the abuses of nominee shareholdings has been announced by the Brazilian Warrant Agency and Finance Company. The directors propose that additions should be made to the Articles of Association which would have the effect of compelling disclosure of beneficial ownership. The penalty for refusal or for false statement would be the "suspension" of the shares in question from dividend and capital rights. The gist of what is proposed is that every transferee shall deliver a certificate to the company either stating that he will hold the shares as beneficial owner or disclosing full particulars of all persons for whom he will hold the shares as nominee. If, without a transfer, there is any change in beneficial ownership, it will be the nominee's duty to disclose particulars within fourteen days. These duties will only apply in the case of shares acquired after the adoption of the new articles. The Board will keep a list of all beneficial owners, and it will be open to inspection by members of the company. Obviously, provisions of this sort could not be made effective unless they were backed by strong financial sanctions. Accordingly, the directors propose that shares belonging to persons who have not complied with the regulations should cease to participate in dividend or capital rights until either the regulations are satisfied or the shares in question are transferred. The latter provision will prevent the company's shares from losing anything in marketability, since "suspended shares" will revert to their full rights as soon as they change hands. The transferee will then be under the same obligation as any other buyer to provide the particulars required. The Board have grappled with the difficulty of defining who is a nominee and what is beneficial ownership. Their definition of the latter may be summarised as the power to give instructions about the exercise of any rights attaching to the shares in question.

In putting forward these novel proposals, the Board make it clear that their main object is to serve the interests of their particular company. But in view of the wide interest which this subject has been arousing, both in Parliament and in the Press, it is evident that this example may be of far more than domestic significance. The directors claim that their proposals fulfil what is the aim, but not the achievement, of the Companies Act, that the public

should know who are the real members of a company. The Board of Trade are said to be already working on legislation to secure this end, but it is noteworthy that the initiative has been taken outside official quarters.

It is widely agreed that fuller disclosure of beneficial ownership is in the public interest, but it should not be overlooked that the principle of nominee shareholdings is extensively and usefully employed. The commonest form of nominee holding is undoubtedly where principals put purchases into their bank's name, often for convenience, often for other reasons. An interesting point which arises is who is "beneficial owner" in the many cases where securities are purchased with money loaned from a bank, or in the case of a borrower who proves not to be creditworthy. Stockbrokers, for the same precautionary reasons, ensure by registration that control of securities shall reside with them, pending such time as funds are forthcoming either by deferred remittance, or from sales of other securities which cannot at once be converted into cash. Beneficial ownership in such cases appears to be transitory, as during this period the person advancing the funds feels himself safely protected as possessor.

It may be mentioned that Stock Exchange legislation has recently been active regarding the delivery of shares in "American" form. Here endeavour has concentrated around the necessity for ensuring that all "American shares" shall be in good "marking names," which translated means that the principle of "nominee holdings" is honoured, as relatively few of these shares actually belong to the institution or firm in which the shares are to be registered. Unit trusts also, if the suggested scheme is adopted and extended, will have their own peculiar difficulties.

It remains to consider whether it is right that a non-official body should anticipate the legislature in the matter, and whether the methods chosen are appropriate and legal. On the first point there are certain obvious dangers in granting to a board of directors power of suspension from dividend and capital rights. More adequate safeguards may be required than the mere undertaking that these powers will not be exercised "arbitrarily or without reasonable cause." On grounds of principle it may be argued that the whole matter should be left to Parliament. As to the technical details, it will be noted that they have been agreed after careful consideration with the Committee of the Stock Exchange; but it seems anomalous that shares acquired before the coming into force of the new articles should be in a different category as regards disclosure from those acquired after. The directors are careful to state that the list of beneficial owners will not be deemed to form a part of the share register, but if there should be any connection the directors might come into conflict with section 101 of the Companies Act. No fault can be found with the spirit which animated the Board in making their proposals; the question is whether they are the people who should put this reform into effect. It will be interesting to see how shareholders respond at the meeting to be held on December 8.



# Pros and Cons of Standardised Accounts

The two following articles have been prepared at the request of the Incorporated Accountants' Research Committee by two of its members. Mr. F. S. Bray presents the case in favour of standardisation in accounts, and Mr. R. N. Barnett was asked to give the opposite view.

## I

### The Case for Uniformity

By F. S. BRAY, Chartered and Incorporated Accountant

If financial accounts are to serve all the purposes which society is beginning to require of them, it is essential that they should give a clear and orderly picture of the operations of an individual enterprise which a reasonably intelligent person can understand; in other words, they must make plain the facts. The preparation of such accounts is a matter of the accurate analysis and classification of the transactions arising out of business practice based upon conceptions of monetary cost. So much is clear, but it is now urged in certain quarters that reliable criticism and interpretation of published accounting documents is impeded by a lack of uniformity.

In my view, it is possible to distinguish three fundamental elements in this principle of uniformity which accounting draftsmen would do well to keep before them if the accounts which they prepare are to be intelligible to all who are likely to be concerned with them. (The first is uniformity of information; the second, uniformity of classification, grouping, design or form; and the third, uniformity in the choice and use of terms.) Published company accounts have latterly come in for a good deal of criticism on the score that there is diversity in the degree of material provided, diversity in classification and diversity in the use of language describing accounting items, all of which tends to ambiguity and a lack of clarity.

#### Comparisons and Ratios

The implication behind all this is that at bottom there is a relatively uniform basis of design which should be common to financial accounts (i.e., balance sheets and revenue statements) after making proper allowances for different types of industries and different types of undertakings within those industries. It does not mean a highly artificial imposition of accounts into a rigid form, but it does mean the retention of such a convention as amounts to a reasonable minimum degree of uniformity such as will facilitate a variety of comparisons and the discernment of the ratios between related groups of significant figures. It is axiomatic that there must be a comparison of like with like; whether it be the figures of two or more accounting periods or the figures of similar concerns which are being thrown into relief, not to add the kind of comparison which contrasts balance sheet and income ratios with standard indices. Balance sheets should give a clear indication on the one hand of net worth (i.e., capital and surplus), borrowed money, liability funds and current liabilities, and on the other hand of fixed assets, investments, current assets and deferred charges. In their turn revenue accounts should give

a clear statement of operational profit, of non-operational items of income and expenditure, of provisions to meet liabilities defined as to time of accrual, of transfers to or from reserves clearly enunciated as such, and of the appropriation of residual balances. In other words, (both balance sheet and revenue items should be set within significant groupings so as to facilitate comparisons and the ascertainment of ratios, with a view to emphasising the elements of strength and weakness.) Within such groupings the classification of individual items should be clear, unambiguous, consistent and so far as possible mutually exclusive, not overburdened with involved details tending to obscurity, and couched in language intelligible to laymen.

A fair measure of reliance can be placed on the deductions to be drawn from the ratios between related groups of figures set in accounting documents framed on a relatively uniform basis, but to do this accounting draftsmen must achieve a reasonable degree of uniformity in analysis and classification. It should then be possible to set up standard ratios as guides to normal efficiency for different industries and for different undertakings within those industries; but it is obvious that the fundamental basis of design in accounting documents must be reasonably consistent between like firms within an industry if a comparison of ratios is to mean the same thing. To this end, it is hoped that trade associations will press forward to some measure of uniformity in the accounts of member-firms.

Again, it is clear that the principle of uniformity has everything to commend it in the case of a parent company and its subsidiaries, particularly when it comes to the point of consolidating accounts. (One striking feature consistently overlooked is the need for uniform accounting periods, especially in those cases where subsidiaries are wholly owned by the parent company.)

#### Indirect Advantages

And what other advantages are to be gained from uniformity in the design of accounts, with special reference to company accounts? In the first place (it would raise the general level of accounting documents, both published and unpublished, of firms in all industries to those of the best standards in design, a circumstance which in itself would mean a general improvement in accounting systems to the benefit of individual enterprises and society at large.) How often latterly have we not heard a hint of impediments caused by defective accounting systems! Secondly, as has been pointed out in *The Economist*, (it would raise the general standard of criticism applied to published accounts.) Thirdly, accurately designed

accounts on a relatively uniform basis, supported by balance sheet and revenue indices, would make for greater managerial efficiency in the maintenance of both short period and long period equilibrium; there would be less likelihood of disturbance brought about by inaccurate assessments of performance. (Fourthly, it would be possible for those intimately concerned in the running of industry—ownership, labour and management—to gain a clearer view of the relative contributions to the "net income" made by the

factors in production which they represent, not to add the advantages accruing to economists pursuing scientific research for its own sake and a Government which is being required to have some measure of regard to planning if difficult social problems are to be avoided.) And lastly, as *The Economist* has been quick to remark, (there is a very real advantage to the economic structure of society in that movements of capital would tend to move into the right channels.)

## II

### The Case Against Uniformity

By R. N. BARNETT, T.D., Incorporated Accountant

Uniformity is desirable and necessary in a science, but is not conducive to development in an art, as it prevents individual expression; although some measure of standardisation is needed in what might be called the groundwork of the arts, as instanced by definitions. The work of the accountant demands both the functions of the scientist and those of the artist, and in the capacity of the former he should be in possession of certain standards with which to perform his work and present it to his clients.

#### Existing Standard Forms

The question arises as to the degree of standardisation necessary in accountancy. At present the general standards are the double-entry system of recording transactions and the production of an account summarising all such transactions for a specified period and a statement of what is owned and what is owed at a particular date. These documents are generally referred to as the profit and loss account and the balance sheet, and it is to the standardisation of these statements that attention is now being directed. (It is realised at once that no one single form can suffice for every class of business and that the most that can be achieved is a standard for each group.) This is no modern innovation, for Acts of Parliament passed in the last century prescribed set forms of accounts for certain statutory companies. A study of the experience so gained would indicate whether the desideratum had been attained; and close association with companies so affected indicates that it has not. Comparison of the accounts of these parliamentary companies may be very misleading, particularly as their similarity in format tempts the uninitiated to compare and conclude. The Act may stipulate the items in the revenue account and balance sheet, but it does not follow that complete uniformity is assured. A similar narration of some three or four words in a revenue account or balance sheet cannot suitably describe all the various items which can be and are included under the heading; nor would it be practicable to extend these forms in order to embrace all extraneous items peculiar to individual concerns. The alternative to such omnibus forms would be an exhaustive tabulation of every possible transaction, indexed and catalogued with explicit instructions showing to which heading in the prescribed standard accounts the item should be ultimately allocated. That such instructions would be voluminous is

evidenced by the mass of directions which are issued for the correct completion of official forms emanating from Government departments. There could be no guarantee, however, of immunity from frequent reference to the compiling authority for guidance in respect of matters not provided for in the code. (A further difficulty arises from the fact that some of these statutory forms of account were drafted so long ago that they are now inadequate to record contemporary facts and transactions, with the result that each undertaking now evolves its own additions to the old forms.)

Even if the machinery for obtaining uniformity in allocation were established, the standard form of accounts to be adopted would have to be decided. It may be gathered from various opinions that it is doubtful whether the old forms of trading and profit and loss accounts suffice for modern standards. Phrases such as "operational costs," "income distribution," "costs of sales," etc., involve different conceptions and constructions of the methods of summarising financial activities. The form required may also depend upon the *raison d'être* of the accounts—shareholders' information, managerial policy, national statistics, economic investigation, etc.

(To maintain the standard form of accounts in a condition capable of dealing with the various phases and changes which occur in the course of time might require a standing committee of investigation and provisions for a periodic review of each standard.)

#### Can Uniformity be Enforced?

Before such criteria can be achieved, there must be some competent authority in existence, and the composition of this authority must be determined. Although the accountancy profession is primarily concerned, it would be necessary to consult the technicians of the various industries, while other bodies, such as trade unions, may desire representation. Unless some compromise could be effected, a committee of inconvenient size would be formed; but any measure of compromise would tend to make the attainment of the ideal more remote.

However perfect the scheme for obtaining standardisation of accounts, it is doubtful whether all those affected by it would submit to the obligations it imposed, and hence some form of compulsion or persuasion would be needed. (The most effective compulsion could only come by Act of Parliament,



but hitherto Parliament has been loath to prescribe too rigid a form of accounts for companies registered under the general Act. Procedure would be necessarily protracted and the resultant statute might rival the income-tax legislation in size, to say nothing of the case law which would be established in the course of time. Although the Stock Exchange may exert some pressure by its rules and regulations, it is doubtful whether such influence could be brought to bear upon certain aspects of standardisation which would not directly concern or sufficiently interest the stock markets.

Undoubtedly the form in which some accounts are presented to shareholders leaves much to be desired, particularly as regards the information disclosed; but accountants, both inside and outside industry, are well aware of the shortcomings and are constantly endeavouring to express the accounts of their companies in the form best suited to the circumstances. They are, however, in the majority of cases, agents for the shareholders, and it is in the hands of the latter to request the publication of further information in the accounts.

The foregoing has touched on some of the factors which have to be borne in mind before "Standardisation of Accounts" could be translated from a Utopian

ideal to practicality. For such a translation even to be partially achieved, the following steps would seem to be involved:—

1. An agreed classification of businesses.
2. The ideal form of accounts for each group.
3. Instructions to enable the ideal form to be correctly and consistently compiled throughout the group.
4. Some measure of consent or compulsion to ensure the minimum deviation from the standard.
5. Machinery for keeping the standard forms capable of dealing with changing conditions.

While these difficulties could be surmounted by much goodwill and hard work and a mass of legislation, (it may still be asked whether the uniformity obtained would be such an unmixed blessing as might at first be imagined. Would it tend to destroy the art of accounting and discourage initiative and enterprise by rendering the accountant an automaton, filling in a prescribed form in accordance with printed instructions? Would auditing become so stereotyped as to induce lethargy?)

Semi-standardisation may be as dangerous as any half-truth, and complete and thorough uniformity may be so cumbersome as to defeat the objects for which its introduction is urged.

## Some Topical Professional Problems

It was fitting that the Incorporated Accountants' London and District Society should wish to express their appreciation to Mr. Richard A. Witty upon his election as President of the Society of Incorporated Accountants. Unfortunately a public function was not practicable. The Chairman and Committee accordingly gave a private luncheon to members of the Council at the Waldorf Hotel on November 19.

Mr. W. A. Pearman, Chairman of the District Society, proposed the toast of Mr. Witty, whose qualities of leadership would be used for the benefit of the Society and of the profession. It was felt that the District Society should now resume its activities and should discuss, and perhaps make recommendations to the Council on, some of the important problems affecting the present and, more particularly, the future. Some members of the Committee considered that greater control was necessary over the commencement of practice by young members, sometimes with insufficient experience. The responsibilities of practising members involved risks of error or inadvertence, particularly in view of the present shortages of staffs. The Council might perhaps consider a system of practising certificates, the issue of which should be controlled, and the possibility of some mutual scheme of protection and legal advice. Another facility which might be appreciated would be panels of members available for consultation by practising members, particularly younger members.

Members who like himself were engaged in the accountancy work of industry, commerce, public utilities and local government, had enjoyed the opportunities afforded them by the London and District Society. Possibly some kind of liaison

committee could be set up to enable them to take a more specific share in the activities of the Society.

Members of the District Society hoped to give some help to those who would return from the war in the refurbishing of their professional knowledge and experience, and also by the discussion of post-war problems by those members who were now available. They did not wish to embarrass the Council, but they hoped that free and ordered discussion in the District Society would assist in developing policy and helpful proposals. They were very happy that Mr. Witty, who knew the needs of members both in London and away from London, was President of the Society, and they wished him a most successful period of office.

Mr. Richard A. Witty, replying to the toast, recalled that his interest in the Society dated from the first time he entered the City of London. He was proud to have received his training under the late Sir James Martin, who was in a very real sense the founder of the Society. Mr. Witty emphasised the receptive attitude of the Council on the matters which had been raised by Mr. Pearman. But the suggestions called for a good deal of thought. The young member who decided to risk everything and plunge immediately into practice, perhaps giving up a safe job to do so, was probably the type they wanted in the Society, and was likely to go further than his more cautious colleagues who waited till everything seemed safe. The suggested mutual insurance scheme deserved careful consideration. They must not forget that the first requirement was the solvency of the fund, as a single claim for negligence might amount to a very large sum. It was not always the younger members who were involved; errors were

perhaps equally likely to arise in the case of senior members who must entrust the work to their staffs. Panels for consultation were operating successfully in some District Societies, and Mr. Witty commended the proposal that the London District Society should adopt a scheme. The position of professional accountants working inside industry had been very much to the fore of late. He could assure Mr. Pearman that his suggestion was already receiving the active—not merely the intended—consideration of the Council.

They were all conscious of the need to render all possible assistance to enable members and students now on active service to return to the profession, even if it meant some sacrifice on the part of those

who had been able to carry on. Students would need help and encouragement in their studies, but there must be no lowering of the standard of the examinations—that would not be in the interests of the students concerned or of the Society. On all matters raised Mr. Witty, on behalf of the Council, welcomed the interest shown by the District Society Committee. He hoped they would arrange for the discussion of the questions raised and would be able to advise the Council of the views of all the members of the London District Society, who numbered about 2,000. Their opinions would be of the utmost value to the Council.

The toast of "The Chairman" was proposed by Sir Thomas Keens, D.L., and Mr. Pearman briefly replied.

## The Valuation of Farm Stocks

By STANLEY G. DOWDEN, Incorporated Accountant

The difficulties in practice of applying costing methods in connection with the valuation of farm stocks have led to the abandonment of the "cost basis" in favour of other bases which are easier of calculation. An Agricultural College has admitted the difficulty of arriving at "the cost of a cow," and in its costings has used fixed prices varying according to the age of the livestock. A suggestion appeared in *The Times* in April last that "it should be possible to keep a constant value for dairy cows and breeding stock that are really the food producer's plant." Another suggestion was the adoption of basic prices ruling at September, 1939. These methods, however, appear to be open to serious objection, as it must be conceded that since the beginning of the war a rise has taken place in farm wages and feeding stuffs, with the result that costs have increased. Difficulties would also arise by reason of purchases of livestock in the market at prices in excess of those included in the suggested basic valuation. Thus its adoption would be equivalent to the creation of a stock reserve.

The general practice appears to be to value livestock and crops at market or selling price less a percentage deduction to cover the expense of marketing. This departure from "cost or market value if lower" is therefore an expedient and runs contrary to accountancy principles. It is open to criticism particularly where considerable fluctuations occur in prices and/or quantities between one stock-taking and another. Such fluctuations were general during the first year of the war and profits of some farmers for the year to September 30, 1940 (based upon stock valuations at market price), were considerably overstated. If, for example, it is assumed that costs remained constant between September, 1939, and September, 1940 (actually some increase undoubtedly did take place), and that market prices rose by, say, 100 per cent., a farmer whose stock at market value amounted to £2,500 at the beginning of the year would find that it amounted to £5,000

at the end of the year; hence the true profit would be overstated by £2,500.

It will be agreed that it is unfair that the farmer should be placed in a position which compares unfavourably with that of other taxpayers, and the solution of the problem appears to be in the elimination of "profit" from stock valuations. A method of accomplishing this is suggested in the illustration at the end of this article. It is founded on the principle that "cost" equals "selling price less gross profit." It may be added that a memorandum embodying the principle has been submitted to the Board of Inland Revenue, and intimation has been received that the Board will accept this method of computing the value of stocks, provided that once adopted the method is adhered to. The procedure is to compute a farmer's "gross profit" by ascertaining the amount by which the total of sales, subsidies and other Government grants and closing stock at market price exceeds the total of opening stock at market price, purchases of livestock, feeding stuffs, seeds, etc., farm wages, payments made for ploughing and other direct charges.

The figure so computed is then utilised in adjusting the value of the stocks in the manner indicated in

(3) *infra*. The method is open to criticism in that:—

- (a) In the "Adjustment of Opening Stock" it has necessarily been assumed that a uniform rate of gross profit appertains to the sales and opening and closing stocks of Year 1.
- (b) In the "Adjustment of Closing Stock" it has necessarily been assumed that a uniform rate of gross profit appertains to the sales and closing stock of Year 2.
- (c) Variations in rates of gross profit as between one commodity and another (e.g., livestock and growing crops) are ignored.

Despite these shortcomings the method is probably to be preferred (except in very exceptional circumstances) to stock valuations at market price.



## 1. STOCKS VALUED AT COST PRICE

## — Trading Account

## Year 1

|                   |                |                   |                |
|-------------------|----------------|-------------------|----------------|
| Opening Stock ... | £ 3,500        | Sales ...         | £ 6,000        |
| Purchases ...     | 4,900          | Closing Stock ... | 4,200          |
| Gross Profit —    |                |                   |                |
| 30% of Sales      | 1,800          |                   |                |
|                   | <u>£10,200</u> |                   | <u>£10,200</u> |

## Year 2

|                   |                |                   |                |
|-------------------|----------------|-------------------|----------------|
| Opening Stock ... | £ 4,200        | Sales ...         | £ 12,000       |
| Purchases ...     | 16,800         | Closing Stock ... | 15,000         |
| Gross Profit —    |                |                   |                |
| 50% of Sales      | 6,000          |                   |                |
|                   | <u>£27,000</u> |                   | <u>£27,000</u> |

## 2. STOCKS AS IN (1) ABOVE VALUED AT SELLING PRICE

## Trading Account

## Year 1

|                   |                |                   |                |
|-------------------|----------------|-------------------|----------------|
| Opening Stock ... | £ 5,000        | Sales ...         | £ 6,000        |
| Purchases ...     | 4,900          | Closing Stock ... | 6,000          |
| Gross Profit ...  | 2,100          |                   |                |
|                   | <u>£12,000</u> |                   | <u>£12,000</u> |

## Year 2

|                   |                |                   |                |
|-------------------|----------------|-------------------|----------------|
| Opening Stock ... | £ 6,000        | Sales ...         | £ 12,000       |
| Purchases ...     | 16,800         | Closing Stock ... | 30,000         |
| Gross Profit ...  | 19,200         |                   |                |
|                   | <u>£42,000</u> |                   | <u>£42,000</u> |

## 3. METHOD OF COMPUTING THE TRUE GROSS PROFIT FROM ACCOUNTS PREPARED FROM STOCKS VALUED AT SELLING PRICE

## Year 2

## (a) Adjustment of Opening Stock

|                        |               |
|------------------------|---------------|
| Sales—Year 1 ...       | £ 6,000       |
| Add Closing Stock ...  | 6,000         |
|                        | <u>12,000</u> |
| Less Opening Stock ... | 5,000         |

"Notional Sales" in relation to Gross Profit £7,000

Percentage of Gross Profit to Notional Sales:

$$\frac{2,100}{7,000} = 30\%$$

|                           |               |
|---------------------------|---------------|
| Opening Stock ...         | £ 6,000       |
| Less Profit—30% ...       | 1,800         |
| Cost of Opening Stock ... | <u>£4,200</u> |

## (b) Adjustment of Closing Stock

|                          |                |
|--------------------------|----------------|
| Sales—Year 2 ...         | £ 12,000       |
| Add Closing Stock ...    | 30,000         |
| Total Notional Sales ... | <u>£42,000</u> |

|  |          |
|--|----------|
| Gross Profit, per Account ...              | £ 19,200 |
| Add "Profit" included in Opening Stock ... | 1,800    |

Gross Profit relative to Total Notional Sales ... £21,000

Percentage of Gross Profit to Total Notional Sales:

$$\frac{21,000}{42,000} = 50\%$$

|                           |                |
|---------------------------|----------------|
| Closing Stock ...         | £ 30,000       |
| Less Profit—50% ...       | 15,000         |
| Cost of Closing Stock ... | <u>£15,000</u> |

## (c) Adjustment of Gross Profit

|   |          |
|---|----------|
| Gross Profit per Account ...                  | £ 19,200 |
| Add in respect of Profit in Opening Stock ... | 1,800    |

£21,000

Deduct in respect of Profit in Closing Stock 15,000

True Gross Profit as shown at 1 above ... £6,000

## CHECK TRADING CONTROL

The validity of the Check Trading Control Order and the Check Trading Direction, 1942 (S.R. & O., 1942, Nos. 1235 and 1236), were challenged in the Chancery Division on November 19. Mr. Justice Farwell delivered judgment in favour of the President of the Board of Trade in the case of *Progressive Supply Co., Ltd. v. Dalton*, and rejected the argument of the plaintiff company that, as it did not itself deal in goods, its operations were outside the scope of the Defence Regulations which authorised the regulation or prohibition of the production, treatment, storage, movement, transport, disposal, or acquisition of articles of any description, and the control of the price at which they might be sold. The company issued checks to customers, who paid the face value of the checks to the company in 20 weekly instalments and also paid a poundage of 1s. 6d. in the £. The company arranged with shopkeepers to supply the customers with goods to the value of the checks, and the shopkeepers then received payment from the company, less an agreed discount. The Order and Direction issued by the Board of Trade prohibited the charging of poundage, and the Judge held that this was within the scope of the Defence Regulations.

**TAXATION****Control of Companies**

The question of control of companies arises both for sur-tax and for estate duty, as well as for national defence contribution and excess profits tax, and it may be well to distinguish what constitutes control in the respective instances.

**Sur-Tax**

Successive amendments of legislation designed to prevent avoidance of sur-tax have resulted in a most widespread definition of what constitutes a company which is under the control of not more than five persons for the purposes of Section 21, Finance Act, 1922. It goes so far as to "deem" the company to be under such control if certain circumstances exist, whether in fact it is so controlled or not. The relevant provisions are:—

A company is deemed to be under the control of not more than five persons—

(1) If any five or fewer persons together exercise, or are able to exercise, or are entitled to acquire, control, whether direct or indirect, over the company's affairs;

(2) If any five or fewer persons together possess, or are entitled to acquire, the greater part of the share capital or voting power of the company;

(3) If any five or fewer persons together possess, or are entitled to acquire, either the greater part of the issued share capital of the company, or such part of that capital as would, if the whole income of the company were in fact distributed to the members, entitle them to receive the greater part of the amount so distributed (Section 19, Finance Act, 1936);

(4) If, on the assumption that the company is one to which Section 21 applies or that it and any other company are companies to which the said Section 21 applies, more than half its income (including any income which has been apportioned to it or could, on either of these assumptions, be apportioned to it) could be apportioned among not more than five persons (Section 13 (1), Finance Act, 1939).

The last sub-clause (4) is of considerable interest. First of all it is necessary to assume that the company is under the control of not more than five persons, no matter who in fact controls it; then if a certain result would follow that assumption, the assumption becomes a fact!

In the case of an investment company there is a further extension of the provision in that it will be deemed to be under the control of not more than five persons if any five or fewer persons would, if the company were wound up, be entitled as members or loan creditors to receive one-half the assets available for members and loan creditors (Section 20 (3), Finance Act, 1936). Moreover, a person may be treated as a member if he is or is likely to be able to secure that income or assets of the company will be applied either directly or indirectly for his benefit, but only if he has transferred (directly or indirectly) to the company assets the value of which is not adequately represented in the value for apportionment purposes of any relevant interests he has in the company, and the directors or other persons who can dispose of or apply the company's income or assets are persons likely to act in accordance with his wishes (Section 15, Finance Act, 1939).

For the above purposes certain relatives (husband, wife, ancestor, lineal descendant, brother or sister), partners and *cestuis que trust* are deemed respectively to be one person; likewise a nominee and his principal are regarded as a single person (Section 19 (2), Finance Act, 1936). The net is wide and of fine mesh!

**Estate Duty**

There was a parallel series of amendments, with fewer stages, in connection with legal avoidance of estate duty. The legislature of 1930 did little more than draw attention to the ease with which companies could be adapted to the purpose, and in the Finance Act of 1940 a net was entwined designed to catch all such schemes. The provisions apply to any company which at any relevant time (i.e., between the transfer of property to the company and the death), would have been deemed for the purposes of the sur-tax provisions to be under the control of not more than five persons, if it were assumed that the latter provisions applied also to companies incorporated outside the United Kingdom and had always been in force and remained so at the death (Section 58, Finance Act, 1940). In other words, the sur-tax provision is adopted but widened.

When we come, however, to the provisions in the 1940 Act regarding the valuation of shares, etc., we find yet another definition of control, which is as follows:—

A person is deemed to have had control at any time if he then had—

(a) the control of powers of voting on all questions, or on any particular question, affecting the company as a whole which if exercised would have yielded a majority of the votes capable of being exercised thereon; or

(b) the capacity to exercise, or to control the exercise of any of the following powers, viz.: the powers of a board of directors or of a governing director of the company, power to nominate a majority of directors or a governing director thereof, power to veto the appointment of a director thereof, or powers of a like nature;

or if he could have obtained such control or capacity by an exercise at that time of a power exercisable by him or with his consent. Control in a fiduciary capacity is disregarded, unless it arises on a disposition made by the person in question (Sub-Sections (3) and (5), Finance Act, 1940).

It will be seen that in (a) half the votes plus a casting vote as chairman would suffice, as would voting control on a particular question, so that more than one person may be deemed to have control at the same time.

**N.D.C. and E.P.T.**

When we come to N.D.C. and E.P.T., it is important to remember that none of the above definitions apply. For this purpose, what is spoken of as a controlling interest is not defined. It means, therefore, "the power which the number of shares held by the directors gives them to control the disposal of the company's assets and the administration of its affairs at a general meeting of the company" (Lord President in *Glasgow Expanded Metal Co. v. C.I.R.* (1923, 12 T.C. 573); the interest to be a controlling one must give a preponderance of voting power such as to outweigh all other shareholders in general meeting. It is something different from "control," as there must first be an interest, though in *C.I.R. v. Clark & Son* (1941, T.R. 129) it was held that the directors who held a controlling interest in a company which in turn had a controlling interest in another company, had a controlling interest in that other company as well. In considering whether directors have a controlling interest, a company other than a director-controlled company cannot be treated as a director (Section 40, Finance Act, 1941).



## Taxation Notes

### Farmers

The agreement reached between the Inland Revenue, the Agricultural Departments and the Farmers' Unions will be welcomed as a real attempt to meet present conditions. The main features are as follows:—

- (1) (a) A valuation of tillages, unexhausted manures, and growing crops will not be necessary where the normal value does not exceed £700. A certificate that there is no material change in value will usually be accepted.
  - (b) In the case of the normal value exceeding £700, a valuation will not be pressed for in every case, and a similar certificate may be accepted after any enquiry necessary to establish its reasonable accuracy.
  - (c) A valuation can, of course, be employed, but the principle is to enable the farmer to dispense with it.
  - (2) Livestock will continue to be on the basis of the lower of cost or market value. Where cost cannot be ascertained, market price less 15 per cent. (in place of the former 5 per cent.) will be permitted. Where this method is adopted, it applies to both opening and closing stocks. This is to continue until 1944-45.
  - (3) Dairy herds, ewe flocks, etc., maintained as such for producing a saleable article (milk, wool, lambs, etc.), as distinct from animals used for production for a short time and then sold, can be treated as capital. The initial cost is capitalised, as is also the cost (or 85 per cent. of the market value) of any home-bred animal added to the flock or herd. If the herd or flock is sold as a whole, any profit or loss will be capital, as would a profit or loss on sale of a substantial proportion on a permanent reduction.
- On a replacement, the cost of the new and the sale price of the old animal will be debited and credited respectively to revenue. Similarly the profit or loss on sale of an animal sold will be a revenue item.

The new leaflet to be issued by the Ministry of Agriculture and Fisheries will be awaited with interest.

### Estate Duty—Aggregation

All property passing on the death in respect of which estate duty is leviable must be aggregated in order to ascertain the rate of duty appropriate to an estate equal to the aggregate. As usual, however, there are exceptions and the following summary of them may be useful:—

- (1) Property in which the deceased *never* had an interest.
- (2) Unsettled property where the net total (excluding property settled otherwise than by the will of the deceased) does not exceed £1,000.
- (3) Works of art and other property of a national, scientific or historic interest or to be given or bequeathed for national or similar purposes and in respect of which the Treasury has remitted the duty.
- (4) Land given or devised to the National Trusts, etc., the duty on which has been remitted by the Treasury.
- (5) Timber.
- (6) Property of persons killed in war in respect of which the duty has been remitted.
- (7) Settled property the duty on which has been commuted.

### Interest on Estate Duty

Although no relief is given for income tax purposes for interest paid on estate duty, it is well to bear in mind that the gross equivalent of the interest is allowed as an annual charge for sur-tax purposes. The amount of sur-tax involved may be considerable.

### Married Women's Income Tax

Unless a married woman is living apart from her husband or is separately assessed, the husband is liable to pay the tax on her income as well as on his own. He has no right of indemnity against her estate if she dies, and any income tax then due does not form a deduction from her estate for death duties. Where, however, income tax has been deducted from her income at source, any repayment thereof may be regarded as a reimbursement of income not needed to meet the tax, and so belong to her.

## Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

*Sur-tax—Income received in one year attributable to more than one year—Undistributed income of investment company—Dividends included for same year—Finance Act, 1922, Section 21, Finance Act, 1927, Section 34, Finance Act, 1936, Section 20 (1)—Finance Act, 1939, Section 14 (1).*

*Gollin v. C.I.R.* (K.B.D., July 23, 1942, T.R. 173) is interesting by reason of the terms of the decision. Appellant and his wife held all the shares of an unlimited private company. For sur-tax for 1938-9 he was assessed at £14,098, of which £9,954 was income from the company. The accounts of the company had been made up each year to March 31, and soon after April 5 in each year the whole of the income was distributed as dividend. As a consequence, the dividends were assessed for the year following the year when they became due. For 1938-9 appellant included in his sur-tax return £4,965, being the dividends accrued due for the year to March 31,

1938. The company was an investment company within Section 20 (1) of Finance Act, 1936, and Section 14 (1) of Finance Act, 1939. Its whole income was, therefore, deemed to be the income of the members for sur-tax purposes, and the Special Commissioners were required to give a direction under Section 21 (1) of Finance Act, 1922, in respect of each assessment year. The result was that the above-mentioned £9,954 represented £4,965, dividends accrued due for 1937-8, and also £4,989, the actual income of the company for 1938-9.

Section 34 of Finance Act, 1927, was enacted to remedy the injustice due to the sur-tax being a graduated tax, and the question was how it should be applied, in the words of the section, "so as to give such relief as is just." Macnaghten, J., in holding that Section 34 applied, pointed out that if the £4,965 were excluded appellant would escape sur-tax for one year. The Special

Commissioners had excluded the amount from 1938-9 sur-tax but had included it for 1937-8, so creating a similar injustice. Counsel for the Crown urged that this was correct, relying upon the words in Section 34 "the income from such assets" as restricting the purview to the £4,965. Macnaghten, J., held that to achieve "such relief as is just" it was necessary to go back to the first year of the company's existence and treat the income as assessable in the year preceding that in which it was assessed, as had been done by the appellant's accountant in the statement attached to the "case."

*National Defence Contribution—Company formed to acquire concession for railway—Railway built and operated but later transferred to another company for remainder of concession—Consideration for transfer annual payments by second company—Whether investment company—Annual sum paid to Sinking Fund for debentures—Whether whole of payments receipts of company—Finance Act, 1937, Section 19 (4).*

*Costa Rica Railway Company, Limited v. C.I.R.* (K.B.D., July 22, 1942, T.R. 165), was another of the leased railway cases which have been so often before the Courts. The Company's original character is indicated by its title. Formed to acquire a railway concession granted in 1884, it had built the railway and operated it from 1891 to 1905. In that year an agreement was entered into for the operation of the whole of its undertaking by another railway company from 1905 to the end of the concession in 1990, less the last 2 months. Annual payments were to be made by the second company; and for the years to June, 1937, and June, 1938, these were £149,100 for each year. For the company it was contended that, in view of the decisions in the "Excess Profits Tax" cases—presumably Excess Profits Duty and Corporation Profits Tax are meant—although it had ceased to operate the railway it could properly be said to be carrying on the business of a railway undertaking and, therefore, came within Section 19 (2) of Finance Act, 1937. And, in these circumstances, it was argued that if Subsection (2) applied Subsection (4) could not. The latter provides that where the functions of a company consist wholly or mainly in the holding of investments or other property, these functions are to be deemed a business carried on by the company.

The City of London Commissioners had decided against the company; and their decision was upheld by Macnaghten, J. He considered that the main function of the company was to see that the operating company complied with the terms of the 1905 agreement; and this he considered to be appropriately described as the holding of investments and other property. The concession was property and the company held it. He considered the decision to be one of fact and not appealable. If appealable, the result would be the same.

There was a cross-appeal by the Revenue upon another point. The company had issued several series of debentures. There had been default in the repayment of the first series resulting in a scheme sanctioned by the Court. A sinking fund was created and the company undertook to pay to the committee of the fund a fixed sum of £3,000 each year which was to accumulate. It was provided that the committee might pay excess income of the fund to the company, and in 1937 the company received from them £11,819 and in 1938 £12,018. The company had contended with success that the balance of the sinking fund income should not be regarded as its income but as that of the committee and by them to be applied for the purposes of the fund. In fact, the committee had utilised the fixed sums above-mentioned not in buying ordinary trustee securities but in buying up debentures of the company which were transferred to the com-

mittee. Macnaghten, J., reversed the Commissioners' decision. He said that if a company created a reserve fund, whatever the purpose for which created, for the purposes of income tax—the assessment to N.D.C. was on the same principles—it remained the income of the company. This held good whether the creation was voluntary or obligatory. He said *Attorney-General v. Corporation of the City of London* (1913, 2 K.B. 497, 6 T.C. 313), was sufficient authority.

The judgment upon the first point seems to the present writer to under-estimate the company's responsibilities. That upon the second point appears to be unassailable.

*Schedule D—Loan at interest to building company—Interest to be waived conditionally—Conveyance of freeholds to lender—Partial performance by building company and release from further liabilities—Whether difference between amount of loan and value of freehold ground rents assessable—Income Tax Act, 1918, Schedule D, Case III, Case VI.*

In *Rushin Investments, Ltd. v. Copeman* (K.B.D., July 27, 1942, T.R. 181) the company was a private company with a capital of £1,000 in £1 shares all of which were held by an estate agent named Silverstone and a solicitor named Cowen. In June, 1935, soon after its formation, an agreement was made with a company called Cosil Estates, Ltd.—the name suggests similar ownership—carrying on a trading, building, and development business, whereby the appellant company was to advance £15,000, of which £2,000 was paid on the signing of the agreement "by way of loan," and the balance was to be paid as and when required. Interest was to be at 5 per cent.; but the right to this was to be waived if Cosil Estates, Ltd., performed the whole of its other obligations, namely: to erect 255 houses on the land within five years; on the sale of each house to grant the purchaser a lease for 99 years at a ground rent of £6; and then to convey to the appellant company the freehold subject to and with the benefit of the lease.

Cosil Estates, Ltd., erected 249 houses, and performed all their obligations to that extent. By the agreement, each freehold, so transferred, was to be taken as equivalent to £58 16s. 5½d., making £14,627 in all and leaving £353 owing to the appellant company as well as interest. But the building company was released from all further liabilities. Evidence showed that the value of the transferred properties was nearly £30,000 and assessments had been made upon the footing that the appellant had received interest or had made profits on the loan of £15,000. The Special Commissioners had decided in favour of the Revenue; and Macnaghten, J., affirmed their decision, and upon the same grounds.

Appellants' case was that although the agreement was one of loan it was in substance one for the purchase of 249 houses, and that, if there was profit, it had not been realised and was a capital appreciation. The Commissioners had described the "ground rents" as "marketable securities" and held the surplus to be in the nature of interest assessable either under Case III or, alternatively, under Case VI.

The application of Case VI as an alternative to Case III is, in the circumstances of the case, interesting, and may have important repercussions in other directions.

*Schedule D—Trade—Purchase of estate by shipping company—Development and realisation—Whether profits assessable under Case I of Schedule D.*

The main facts in *Cayzer Irvine & Co., Ltd. v. C.I.R.* (Court of Session, July 7, 1942, T.R. 221) were that the company had been formed mainly for the purpose of



managing the Clan Line. Its memorandum enabled it to hold and deal in real estate. In 1890, Sir Charles Cayzer had purchased the Ralston estate and had lived there until 1902. From that year until 1909 he had, however, only occasionally stayed at Ralston. In 1915, being offered the remainder of the estate, he arranged for the company to purchase the whole of it, including his own part. In 1925 the company gave an option to a building company to build houses upon the estate. Between 1918 and 1923, the company realised eleven villas, being part of the property purchased. Between 1921 and 1929 60 acres of land were sold in four lots, three of which were compulsory sales to an authority; whilst, between 1920 and 1937, it granted over 1,100 fens for feu duties worth over £7,000 per annum; and, a fact which the Lord President said was more important, during this period spent £90,000 on development.

It was argued that the case was not one of trading but investment. It had been necessary to spend money in order to maintain the value. The realisations had been necessitated by the slump in shipping. The Special Commissioners had found that the company had acquired the estate as a trading asset with a view to development and marketing; and the Court was unanimous that this finding was supported by evidence and could not therefore be disturbed.

The case, whilst marking no new development of the law, emphasises once more the importance of the original intention of a transaction as affecting the subsequent question whether there has been a trade.

*Sur-tax—Annuities payable for benefit of children—Annuities paid to settlor by trustees—Annuity cheques to adult children paid to settlor—Whether income diminished—Income Tax Act, 1918, Section 27, F.A., 1927, Section 38 (2), F.A., 1936, Section 21, F.A., 1938, Section 38, 3rd Schedule, Part II.*

*Russell v. C.I.R.* (K.B.D., October 5, 1942, T.R. 237) was a case where the settlements made by a father upon his children were upon familiar lines. Appellant was the father of three children who lived with him. By the first of three deeds of trust he had covenanted to pay to trustees, who were his solicitors, in trust for each of the three children during the joint lives of himself and the children an annuity of £1,500. These annuities commenced from April 6, 1934, and like all the annuities in the case were payable annually on April 4 in each year. The deed was, however, revocable with the consent of one of five persons, and by the third deed of October 28, 1938, Mr. Russell revoked it. By the second trust deed of April 2, 1937, which was similarly revocable, Mr. Russell covenanted to pay his adult son Michael an additional annuity of £1,500 during their joint lives. This deed was also revoked on October 28, 1938. By the third deed of October 28, 1938, Mr. Russell covenanted to pay to the trustees for each of his two sons, both then of age, for four years from April 6, 1938, an annuity of £1,500.

Each of the deeds contained a clause absolving the trustees from liability for failing to enforce against Mr. Russell his obligation to pay the annuities. The method adopted was for Mr. Russell to pay the annuities to the trustees less tax and for the latter to send at once a cheque for the same amounts back to Mr. Russell upon behalf of the annuitants; and evidence was given that this procedure was expected. In the case of the adult sons, in years where the trustees had sent the amounts to them, they had endorsed the cheques back to their father, with the net result that Mr. Russell had paid total annuities aggregating from £3,000 to £6,000 per annum without being a penny out of pocket.

The Special Commissioners had held that whilst there had been no effective payments under the second and third deeds there had been under the first trust deed of so much for each year as was reasonable for the children's maintenance and education, and had fixed the amounts. It was conceded that this was wrong and that it was a case of all or nothing. Macnaghten, J., held that in view of the admitted expectation that the trustees would repay the money to him, the Special Commissioners ought to have held that by the exchange of cheques Mr. Russell had made no effective payment of the annuities or any part thereof, and the fact of his discharging his legal obligation to maintain his own children had no bearing on the question at issue. His income had suffered no diminution.

The schemes of the first two deeds were made ineffective by Finance Acts, 1936 and 1938. As regards the third deed, where payment was made to the adult sons who paid the amounts back to their father "to keep the money for them," whilst the decision will commend itself as a finding of fact, it does seem to raise an important question of principle which might theoretically affect quite genuine transactions.

*Schedule D—Trade—Isolated transaction—Purchase and sale of whisky—No other such dealings.*

*C.I.R. v. Fraser* (Court of Session, July 7, 1942, T.R. 225) was a case where the respondent instructed an agent to purchase whisky in bond to the value of about £400. As no single lot to that amount was available, there were three purchases between December, 1937, and November, 1938. The first two lots were sold in August, 1940, and the third in November, 1940, resulting in a net profit of £712. The respondent had no special knowledge of the whisky trade; he neither took delivery nor did he have it blended or advertised. The sales, like the purchases, were through an agent. The General Commissioners, by a majority, had decided that an adventure in the nature of trade had not been carried out. The Court of Session, with unanimity, reversed this decision.

In so far as the nature of the transaction was concerned, the case was on all fours with that in *Rulledge v. C.I.R.* (1929, S.C. 379, 14 T.C. 490); but there was this important difference that in the latter the Commissioners had found that the profits were those of a "concern in the nature of trade" whilst here the finding was to the contrary. The Lord President pointed out, however, that, in dealing with a later case, "Now, the Lord President there holds himself bound by the decision of *Rulledge* and that necessarily means that the decision of *Rulledge* was in part a decision in law. The Court is not bound merely by a finding of fact in another case which it has no jurisdiction to review. Accordingly, we are, I think, equally bound by the decision in *Rulledge* as explicating within its limits the meaning of the words "an adventure in the nature of trade."

It was held that the question to be determined was a mixed question of fact and law and, therefore, open to judicial review. But the above passage contains a useful reminder.

*Sur-tax—Transfer of assets abroad—Transfer to companies abroad—Dividend in debentures—Whether capital or income—Finance Act, 1936, Section 18, Schedule II, paragraph 3.*

*Aykroyd v. C.I.R.* (K.B.D., October 6, 1942, T.R. 245) was a sur-tax avoidance case from which an interesting question emerged. The appellant transferred stock of an American company to Canadian companies, and subsequently received from them cash dividends which

included the value of a dividend paid by the American company in the form of debentures.

In *C.I.R. v. Blott* (1921, 2 A.C. 171, 8 T.C. 101) a company had distributed to its shareholders out of accumulated profits a dividend in the form of fully-paid bonus shares. In *C.I.R. v. Fisher's Exors.* (1926, A.C. 395, 10 T.C. 302) the issue was in the form of debenture stock redeemable in normal circumstances at the end of five years and five months at the option of the company and compulsorily in certain special circumstances. In both cases it was held that the distribution was one of capital. In the present case the bonus debentures matured at the end of six years and the company had an option to redeem them on 30 days' notice of its intention to do so. A question, one of several, was whether the *Fisher* decision was applicable. Macnaghten, J., held that it was not.

He based his judgment upon the fact that there was a divergence of views in the three judgments given in the *Fisher* case. Lord Sumner had held that a company could call the subject of a bonus distribution capital or

income, and that what the company said it was it was as against the world. And, at the close of his judgment, he had said that if a six years' currency of the debenture stock was permissible he did not see why six weeks should be less so. Lord Cave, upon the other hand, had in his judgment stressed the permanence of what had been done and, apparently, it was only "upon the whole" of the facts that he felt that the *Blott* decision applied. Lord Shaw's judgment was in the opinion of Macnaghten, J., in agreement with that of Lord Cave.

Unfortunately, as pointed out by the judge, even if his view of the *Fisher* case were wrong it would not help the appellant because of other facts in the case. The resultant position is that the decision of Rowlatt, J., in *Whitmore v. C.I.R.* (1925, 10 T.C. 645), given when the *Fisher* case had been heard in the Court of Appeal, is in direct conflict with that in the present case. There, the debentures issued had been ephemeral; but the issue had nevertheless been held to be a capital distribution. It is to be hoped that the present case will be carried further, if necessary, at the Revenue expense.

## Publications

**Studies in the National Income, 1924-38.** Edited by A. L. Bowley, Sc.D. National Institute of Economic and Social Research. (Cambridge University Press, London. Price 15s. net.)

This is the first of a number of economic and social studies by the National Institute of Economic and Social Research, which was formed in 1938 under the presidency of the late Lord Stamp. This study of the national income was delegated to a committee of the London School of Economics. The book bears throughout the scholarly touch of its editor, Professor Bowley, but it would no doubt have been a different volume had there been no war. As it is, there is little which is fundamentally new. Much argument turns on the definition of national income. We are given a searching list of questions directed to this objective, together with answers thereto by the principal authorities.

The study of the money income for 1924-38 is in the main a reprint of Professor Bowley's address to the Royal Statistical Society of June 18, 1940, which remains the undisputed authority on the different computations of incomes in the lower ranges, including the arguable item of the national wage bill. The estimates of the national income show a considerable stability, for the estimate of £3,900 million for 1924 finds its duplicate in the same figure for the year 1935, though at the low point of the depression there was a fall to £3,325 million and a rise to a high point in 1937 and 1938 of £4,350 million. Messrs. Marley and Campion's paper on changes in salaries (also reprinted from the *Royal Statistical Journal* of 1940) is perhaps of less value because of the greater uncertainty of material.

The alternative method of computing the national income by way of the Census of Production, for which the late Sir Alfred Flux was mainly responsible in the year 1924, is also surveyed. But it will always be doubtful whether this method has anything of the same inherent reliability as the alternative method of computation of monetary incomes. The Census of Production only goes half way and, for the balance, estimates must be relied on. Incomes within the income tax net are subject to close examination by the authorities, a process of winnowing which is not present to the same extent with the returns within the field of the Census

of Production. The former is directed to extracting revenue; the latter to the compilation of statistics. The final chapter of the book examines the method of computation of real income through the measurement of price movement.

In sum, this volume brings together in compact form the main considerations attending the computation of the elusive concept of national income, but we must await much progress in the efficiency of official statistics before we can feel satisfied with the results and the comparisons made between year and year. If we are to have more conscious direction of the national welfare in the future than in the past, our need for an accurate computation of the national income will grow more and not less insistent.

**Excess Profits Tax and N.D.C.** By N. E. Mustoe, M.A., LL.B. (Sir Isaac Pitman & Sons, Ltd., London. Price 25s. net.)

The impression gained from the reviewer's necessarily somewhat cursory reading is that this book will well repay closer study section by section as particular problems arise in the application of the excess profits tax provisions to individual cases. The interpretations of the law are helpful and constructive, and the numerous references to official practice and admitted or possible administrative concessions serve to create much the same atmosphere as results from personal consultation with a competent and sympathetic adviser. The author has certainly succeeded in the intention expressed in the preface: "It is designed to be a discussion and an explanation." The method is applied with good effect to the related subjects of directors' control, controlling interest and working proprietors, and the illustrations are simple and apt.

Lest what has been said might suggest that the work is a mere handbook, it is as well to record that the decided cases cited number well over three hundred, some being discussed at considerable length with useful comparisons and contrasts.

Discerning practitioners will deem the late publication of the work well justified by the maturity of its subject-matter, and it will speedily assume the well-thumbed appearance of the favourite book of reference to be kept on the desk—not in the bookcase!



## — Accountants and Accounts

The following suggestion for a standard form of profit and loss account has been made in a letter from two Incorporated Accountants which was published in a recent letter to *The Economist*. We reproduce the letter, by kind permission, in the hope that the suggestion may interest our readers and serve as a basis for discussion. The views expressed are those of the authors as individual practising members of the profession.

To the Editor of *The Economist*.

Sir,—We suggest, for discussion with a view to general adoption, the attached specimen profit and loss account as a suitable minimum for publication.

There has been a great improvement in published accounts in recent years, particularly as regards balance sheets, but many accountants desire further improvements, especially in the form of the profit and loss account.

It is improbable that in war-time any desirable changes can be enforced by statutory means, but we think that much can be done by voluntary action. A good example spreads, particularly in times when the public conscience is awakened.

Many companies cannot now use the full accounts suggested. They must, for security reasons, omit the first portion of the account, and show profit after E.P.T. This is no reason, however, why discussion should not proceed and why accounts should not be improved at once to some degree.

In addition to the form we have presented, we support the method of publishing comparative statements of the principal figures of profit and loss account and balance sheet over a period of years. In the case of holding companies, we also attach great importance to further developments along the lines of consolidated profit and loss accounts.

Yours faithfully,

F. SEWELL BRAY.  
BERTRAM NELSON.

..... COMPANY LIMITED

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED....19....

(Comparative Figures throughout)

#### Expenses.

##### I. Production :

- i. Wages .. .. .
- ii. Materials .. .. .
- iii. Works Expenses .. .. .
- iv. Sub-Contracts .. .. .

##### II. Selling and Distribution

##### III. Administration and Management

##### IV. Finance

##### V. Balance, being Operational Profit for the year C/d.

##### VI. Taxation Provisions :

- i. Excess Profits Tax .. ..
- ii. Income Tax .. ..

(The basis of the reserve being stated, e.g., on profits to date.)

##### VII. Special Items

(Suitably specified)  
e.g., War Damage Contributions.  
Non-Recurring items.

##### VIII. Balance, being Net Profit for the year

##### IX. Appropriations of Profit

- i. Reserve Funds (suitably specified)
- ii. Dividends (suitably specified) ..

##### X. Balance of Profit Unappropriated

#### I. Net Sales

##### II. Operational Profits B/d.

[ After providing for—  
Directors' Fees .. .. £  
Depreciation and amounts—  
written off Fixed Assets £ ]

##### III. Dividends received from :

- i. Subsidiary Companies. .. ..
  - ii. Associated Companies .. ..
- (After deduction of Income Tax)

##### IV. Income from Investments :

(After deduction of Income Tax) subdivided in accordance with the Balance Sheet headings, e.g.—  
i. Stocks and Shares .. ..  
ii. Freehold and Leasehold Premises

##### V. Other Current Income

(Suitably specified)

##### VI. Special Items

Suitably specified, e.g.—  
i. Profit on Sale of Fixed Assets ..  
ii. Extraordinary Income from Subsidiary Companies .. ..

##### VII. Balance brought forward from last year

Deduct :—

Final Dividends .. ..

##### VIII. Transfers from Reserves

(Suitably specified)

##### IX. Net Profit for year B/d.

## Australian Government Contracts

The following standard conditions applicable to cost-plus contracts have been adopted by the Department of Munitions of the Commonwealth of Australia. We are enabled to reproduce them (in a slightly shortened form) through the courtesy of Mr. Edwin V. Nixon, C.M.G., F.S.A.A., Director of Finance in the Department.

### STANDARD CONDITIONS APPLICABLE TO CONTRACTS ON A COST PLUS PROFIT BASIS

1. The payment to be made to the contractor for the performance of the contract shall be the sum of: (a) production cost as herein defined; (b) the remuneration or profits as agreed upon.

#### PRODUCTION COST

2. Production cost shall be the sum of:—

(a) *Direct Material Cost*—the cost of the materials or substances from which the product is made, provided that such can be identified unmistakably and conveniently with the product or process. Cost shall mean:—

(i) In the case of materials taken from the contractor's stock—market price on the date when the contract was made. Subsidiary materials, for which it is not practicable to make provision at the time the contract is made (including aids to manufacture) may be charged at the current market price at the time of issue.

(ii) In the case of materials purchased during the currency of the contract for the purposes of the contract—cost to the contractor.

(b) *Direct Labour Cost*—that portion of the factory wages which is productive in character and which is directly applicable to the product or process.

(c) *Direct Expense*—any expense which relates to and is directly applicable to the product or process.

(d) *Overhead Expense*—any other cost or expense attributable to the contract which is not conveniently chargeable directly to the product or process and which is not disallowed by these conditions.

3. Production cost shall be credited with the following items:—

(a) All trade discounts, rebates, commissions and price reductions of any kind received or receivable by the contractor. Where accounts are paid directly or indirectly out of funds provided by the Commonwealth, free of interest to the contractor, cash discounts must be credited to the contract.

(b) The proceeds of sales of any secondary products resulting from manufacture and of any material wasted, scrapped, spoiled, or otherwise discarded in the processes of manufacture, and the value of any such products and materials otherwise utilised by the contractor.

#### EXCLUSIONS FROM PRODUCTION COST

4. The following expenses, losses and outgoings shall be excluded from production cost:—

(a) Taxes, however described, assessed on income or profits and any expense incurred in controversies concerning those taxes.

(b) Remuneration of directors, officers and other employees in excess of amounts which are reasonable.

(c) Interest on the contractor's own capital, including any charge for rent of plant and/or premises owned by the contractor.

(d) Interest on borrowed money and/or expenses incurred in obtaining the use of money (including that part of the rental paid for machinery which exceeds the depreciation allowable for Federal income tax purposes), also that part of the rental paid for the hire of loaned plant, which represents interest on the value of such plant.

(e) Premiums for insurance (i) against loss of profits and for the protection of income; (ii) on the lives of directors and/or officers and/or other employees for the benefit of the contractor; (iii) against risks which

are not customarily covered by insurance; (iv) against risks when the Commonwealth agrees to accept the liability for any damages or loss arising from such risks.

(f) Depreciation, in excess of the amount which would be allowable for the purposes of Federal income tax.

(g) Any rent, rates, taxes, insurance, depreciation and maintenance expenses in respect of land, buildings, plant and other property which is not used for or in relation to the subject-matter of the contract.

(h) Advertising and publicity expenses, selling charges, bad debts written off and provisions for doubtful debts.

(i) Provision for any contingency beyond reasonable expectation.

(j) Losses resulting from the sale, destruction or retirement from use of capital assets.

(k) Expense incurred for the purpose of incorporation or amalgamation of companies or reorganisation of capital.

(l) Any payment or credit to a sub-contractor or to a subsidiary, associated or allied firms or companies to the extent that such exceeds an amount which is, in the opinion of the Minister, fair and reasonable.

(m) Any expense that, in the opinion of the Minister, could have been avoided or reduced by the exercise of reasonable and usual care and diligence or the calling of competitive tenders by the contractor, to the extent that such could have been avoided or reduced.

#### EXPENSES SUBJECT TO THE APPROVAL OF THE COMMONWEALTH

5. The following expenses shall not be included in production cost unless specifically approved by the Minister:— (a) Contributions to charitable institutions and/or institutions for promoting social welfare. (b) Voluntary payments for the benefit of employees through insurance, superannuation or other welfare schemes. (c) Contributions to trade associations. (d) Payments to employees in excess of the rates prescribed by recognised awards. (e) Royalties or other payments made for the use of patents and/or secret processes and/or formulae.

#### ACCOUNTS

6. The contractor shall allocate a job number or, if necessary, separate job numbers, for the work to be performed under the contract and such job number shall appear clearly in all accounts, invoices, records or other documents relating to the contract.

(b) The contractor shall keep an account for each job and, for the purposes of verifying such account, shall afford all necessary facilities for the examination of its books, accounts, records and documents by any officer or officers of the Commonwealth appointed for that purpose and shall furnish to such officer or officers such evidence as may be required to prove any claim or claims made under this contract.

(c) All books, accounts, records and documents pertaining to the contract shall be preserved by the contractor readily available for inspection on behalf of the Commonwealth until at least two years have elapsed after the final settlement of amounts due under the contract.

7. The Commonwealth may require the contractor to furnish statements of production cost in any detail and to show separately in such statements:—(a) Payments to employees by way of special allowances and overtime. (b) Payments to subsidiary, associated or allied firms and/or companies. (c) Payments to "sub-contractors."

#### FAULTY MATERIALS, ETC.

8. The Commonwealth shall not be liable to pay for the cost of faulty materials, workmanship and fittings rejected by it in excess of a reasonable allowance, but the Minister shall have the power to decide whether, having regard to all the circumstances, the cost or any part thereof ought to be allowed.

#### DISPUTES AND DIFFERENCES

9. Any dispute or difference between the parties shall be referred to the Minister whose decision shall be final.



**FINANCE****The Month in the City****War and Speculation**

In many respects the past month on the Stock Exchange has been the most eventful since the war began. The climax to the upward movement in equities and speculative stocks came on November 9 after the news of the American landings in North Africa. On that day the number of bargains marked reached 9,119, the highest figure recorded in the new series. At the same time the *Financial News* ordinary share index rose to 93.5, its best level since the beginning of 1938. Since then much quieter conditions have prevailed. In part this has been due to the usual interval for profit-taking after a sustained advance, and in part to the absence of any equally dramatic news from the war fronts. But its continuance up to the time of writing must be mainly ascribed to fear of official action to restrain speculation. From Westminster, there has been advocacy of a capital gains tax, and the Stock Exchange Committee itself has bowed to the prevailing opinion to the extent of appointing a sub-committee to look into the question of speculation. The larger operators, of course, already pay a capital gains tax, but whether its extension to the smaller speculator would justify the man-power required to make it effective is very doubtful. On the whole question of speculation in wartime it seems curious that while the slump in values in May, 1940,

was not considered unethical the subsequent recovery apparently is. If speculation is detrimental to morale, then there would be a case for limiting it, even if other criticisms were misplaced. But most of these other arguments appear to be beside the point. It is true that, even in a closed capital market, a "bull" market for equities can divert funds temporarily from British Government securities. This is reflected in the fact that gilt-edged declined at the height of the advance in equities. Ultimately, however, the seller of equities must find a home for his money in British Government stocks, and in any event what helps the war effort is not so much the money which is invested in Government issues as the money which is not spent on consumption goods. There is little evidence that the profits of speculation are spent on consumption. If they were, it would be an argument for tighter rationing, rather than for controls on free market dealings. In wartime, speculation may have lost its positive economic function, but it is not harmful in itself. There seems to be no valid reason why the authorities should intervene, but there is considerable discussion as to what form their action would take if they did. In view of staff difficulties, it is doubtful if the time allowed for passing names could be reduced below five days, but some advantage might be obtained if the time taken were effectively and not merely nominally limited to this period.

**Points from Published Accounts****Amalgamated Press**

Another instance in which the presentation of a consolidated balance sheet would contribute much to an intelligent reading of the accounts is furnished by Amalgamated Press. This company has always followed the practice of making substantial additions to reserve, and with a transfer of £100,000 from the past year's profits that fund is now brought up to a total of £1,450,000. Even this is, however, small in relation to the book value of £5,336,527 placed upon copyrights and goodwill. Such assets have, of course, a special significance for a concern of this character; but as this item alone represents fully half of the balance sheet total of £10,613,131 it is more than ever necessary that shareholders should not be left in the dark as to the tangible values supporting the other asset entries. As it is, however, there is no consolidated balance sheet to elucidate the real worth of the investments in subsidiaries, which appear at £3,097,668. The least inquisitive shareholder must feel the temptation to wonder if a further sum for goodwill might not, in effect, be included here.

**The E.P.T. Cushion**

The cushioning influence of E.P.T. recoveries has lately been exemplified in a number of industrial reports. An interesting case is that of Montague Burton. For 1940-41 this company returned a profit of £454,169, determined after E.P.T., but subject to a provision of £257,500 for income tax. The 1941-42 profit of £335,600 has not had to suffer deduction of E.P.T. So far from that, instead of a "provision for income tax" there is

this time a "provision for taxation after crediting estimated amount recoverable in respect of excess profits tax." Even as thus reduced the appropriation is the substantial one of £245,000, a weighty sum in relation to the meagre balance of £90,600 left for distribution. This actually fails to cover the preference dividends of £100,000, and the maintenance of the ordinary dividend at 5 per cent. and the pension fund transfer at £25,000 entails a reduction in the carry-forward from £242,632 to £152,503. Here the cushioning influence has been greatly modified, no doubt because the amount of the taxation provision reflects the larger profits earned in previous years. In such instances the true net earning capacity, after deducting N.D.C. and income tax at 10s., remains an unknown quantity. Similarly, the net profit of Wardle & Davenport is returned at £26,434 "after bringing to credit the amount of excess profits tax recovered in respect of past overpayments." This compares with a surplus of £30,078 shown for 1940-41 "after bringing to credit the amount reserved for excess profits tax in excess of requirements." The variation in formula has the less importance since the 1939-40 accounts showed that only £16,000 had been reserved for E.P.T. In most cases there is no such guide as this to indicate the relative importance of tax recoveries included in profit.

The Board of Trade announce that the functions of the branch of the Insurance and Companies Department at Blackpool, with the exception of those relating to winding-up, have been transferred to London. Correspondence on company matters other than winding-up should henceforth be addressed to the Insurance and Companies Department, Board of Trade, Romney House, Tufton Street, London, S.W.1.

**LAW****Legal Notes****COMPANY LAW**

*Companies Act, 1929, Section 255—Voluntary liquidation—Judgment creditor's petition for compulsory winding-up dismissed.*

By an old-established rule of the Court, when a company is in voluntary liquidation, the Court, before granting a petition for a compulsory winding-up, must regard the wishes not only of the petitioner but also of the other creditors. In the recent case of *In re Home Remedies, Ltd.* (59 T.L.R., 31), after the company had gone into voluntary liquidation, a judgment creditor petitioned for a compulsory winding-up order. The petition was opposed by the company and by nearly all the other creditors, who wished the voluntary liquidation to continue. In the petition no reason was shown why a compulsory order was necessary to protect the rights of the petitioning creditor or of any other creditor. It was claimed at the hearing that the petitioner was entitled as of right, without regard to any opposition. Reference was made to the change in the law effected by Section 255 of the Companies Act, 1929, whereby the winding-up of a company shall not bar the right of any creditor or contributory to have it wound up by the Court, although, in the case of an application by a contributory, the Court must be satisfied that the right of the contributories will be prejudiced by a voluntary winding-up. Counsel for the petitioner relied on that Section as construed in the case of *Re James Millward & Co., Ltd.* (1940, Ch. 333). In that case it was decided that, on the true construction of the Section, a creditor of a company in voluntary liquidation, on proving his unsatisfied judgment debt, is entitled to an order for compulsory winding-up. Simonds, J., held, however, that that decision did not abrogate the old rule of the Court that where there is a voluntary liquidation, the Court must regard the wishes not only of the petitioner, but also of the other creditors. The petition was, therefore, dismissed.

**EMERGENCY LEGISLATION**

*Discovery in Aid of Execution—Examination as to Means—Leave not Required.*

In *Fagot v. Gaches* (1942, 2 All E.R. 476) the Court of Appeal decided that there are no words in the Courts (Emergency Powers) Act, 1939, which require the making of an application for leave to proceed before the issue of a summons for leave to examine a judgment debtor. The question for determination was whether an application to examine a judgment debtor under the Rules of the Supreme Court came within the words of the 1939 Act: "proceed to execution or otherwise to the enforcement of any judgment for the payment or recovery of a sum of money." The judgment in question was for damages to be ascertained by the official referee, and was therefore not for an ascertained sum. The judgment of Simonds, J., in a previous case was overruled. Goddard, L.J., pointed out that the object of examining a debtor was to find out whether he had means, and incidentally, whether an application under the Courts (Emergency Powers) Act for leave to proceed was worth making at all. That did not fall within the words of the Act: proceedings had not to be duplicated in that way.

**EXECUTORSHIP LAW AND TRUSTS**

*Post-Nuptial Settlements—"Whilst she remains my Widow"—Divorce—Valid after Death of Settlor.*

In *Re Jacobs*, a case recently reported, the Court of

Appeal decided that two post-nuptial settlements remained operative in favour of the former wife of the settlor, even after his death. The parties were married in 1896 and the settlements were made in 1904 and 1905. In 1911 the settlor's wife divorced him. The settlements provided for the payment of £250 a year to her "whilst she remained his widow." On the settlor's death his executors contended that, as Mrs. J. was not his widow, the settlements were void. Langton, J., had held that the funds were settlements of property that were not in any way terminated by Mr. J.'s death. The Court of Appeal upheld that decision, finding that the covenant was not only to pay during the life of the settlor, but also to pay Mrs. J. £250 a year after the settlor's death. Goddard, L.J., said that if the contention of the executors was sound, it would follow that if a man covenanted to pay his wife a certain sum, and the marriage was dissolved, the covenant would become void. But there was authority that that was not so.

**MISCELLANEOUS**

*Sale of Business—Payment for Goodwill by Annual Instalments—Excess Profits Tax Deductible Before Arriving at amount of Divisible Profits.*

In the last war it was held in several cases that excess profits duty was to be excluded in ascertaining a company's profits. In each case the decision depends on the construction of the particular agreement. In *Re G. B. Olivant & Co., Ltd.'s Agreement* (1942, 2 All E.R. 528), the Court of Appeal reached a similar conclusion. The agreement, dated September, 1933, provided for the sale of several properties. It was a complicated agreement; the matter in dispute related to the consideration payable for goodwill. The purchasers were to pay £200,000, by eight yearly instalments of one-half the sum which the purchasers' auditors should certify to be the profits of each financial year, without deduction of income tax. After eight years, or after the payment of £200,000, the purchasers were to be relieved of all obligation. The computation of the auditors was to be binding on both parties. Subject to any special provisions of the agreement, the computations were to be those of ordinary commercial practice. The account was to include all reasonable and proper expenditure attributable to the working of the business. Lord Greene, M.R., held that the principles laid down were for the ordinary purpose for which profits of a trading company are computed, namely, the company's profit and loss account on the basis of which profits are to be distributed. There was nothing in the special provisions to suggest that excess profits tax was not a proper deduction, and it was not disputed that for the purpose of drawing up a profit and loss account of a trading company, E.P.T. must be deducted if ordinary commercial practice was to be followed. In that respect it was unlike income tax, and it was common knowledge that without such a deduction the divisible profits of a trading company could not properly be ascertained. For its own accounts the purchasing company might adopt a different figure for depreciation, with the result that, without special provisions, the instalment payable to the vendors would be correspondingly reduced. Lord Greene pointed out that the earlier cases decided that in ascertaining divisible profits, E.P.D. fell to be deducted. That duty was a deduction which ought to be made before ascertaining divisible profits.



*National Service (Armed Forces) Act, 1939, Section 16A—Deferment—Liability of Company Secretary for False Statement.*

In *Dellow v. Busby* (1942, 2 All E.R. 439), the Divisional Court decided that proceedings under Section 16A of the National-Service (Armed Forces) Act, 1939, were properly brought against the secretary of a company in that he had knowingly and recklessly made a statement false in a material particular. The company concerned was applying for the deferment of the calling-up of one of its lorry drivers. In reply to an official enquiry the secretary of the company, in a letter on the company's notepaper signed for and on behalf of the company by the secretary, gave certain information which was untrue. He was therefore charged with knowingly or recklessly making a statement false in a material

particular. The magistrates had decided that the proper person to be summoned was not the secretary but the company itself, and they therefore dismissed the information. The Divisional Court held that the magistrates were wrong in point of law and they were therefore ordered to hear the case in the ordinary way. The question of the liability of the company was not discussed by the Divisional Court. The liability or otherwise of the servant of a company to criminal proceedings of this nature depends upon the construction of the particular statute creating the offence. This decision establishes that where information is provided in connection with deferment and the secretary is responsible for that information, if it is proved that he knew the statement to be false or made it recklessly not caring whether it was false or not, he becomes liable to be prosecuted under this Section.

## The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The thirty-fifth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

### ORDERS

#### EXPORT

Nos. 1598, 1640, 1676, 1749, 1811, 1812, 1907, 2101, 2185, 2289. *Export of Goods (Control) Orders, 1942, Nos. 33 to 42.*

Territories in the Middle East are added to the list of destinations to which no goods may be exported. The list of goods subjected to control is amended.

(See ACCOUNTANCY, September, 1942, page 217.)

#### FINANCE

No. 2095. *Order in Council extending to the Isle of Man and amending the Defence (Finance) Regulations, 1939, and revoking the Defence (Finance) Regulations (Isle of Man), 1939.*

The Isle of Man is subject to the same Defence (Finance) Regulations as the United Kingdom, with consequential alterations in wording.

No. 2096. *Order in Council amending the Defence (Finance) Regulations, 1939.*

Regulation 3A, containing the restrictions upon transfer of securities, is completely revised. Restrictions are imposed on settlements, otherwise than by will, in favour of non-residents. A branch of a business is to be treated as a body corporate resident where the branch is situated. It is forbidden to agree to do at any future time any act which is unlawful by virtue of the Regulations.

(See ACCOUNTANCY, July, 1942, page 179, and November, 1942, pages 21 and 35.)

#### LIMITATION OF SUPPLIES

No. 1842. *Limitation of Supplies (Miscellaneous) (No. 17) Order, 1942.*

The use of controlled goods to produce goods not controlled is deemed to be supply to an unregistered person. Small manufacturers may supply goods in any class up to a minimum quota of £100 per month.

(See ACCOUNTANCY, September, 1942, page 217.)

#### MANUFACTURE AND SUPPLY

No. 1430. *Footwear (Manufacture and Supply) (No. 2) Directions, 1942.*

Amended Directions are substituted for those contained in No. 1005.

No. 2210. *Domestic Pottery (Manufacture and Supply) (No. 3) Directions, 1942.*

Restrictions are placed on the sizes, and number of types to be manufactured, of articles of domestic pottery.

No. 2214. *Domestic Furniture (Control of Manufacture and Supply) (No. 2) Order, 1942.*

Manufacturers of domestic furniture must be licensed, and must comply with any directions of the Board of Trade. Utility furniture is to bear the utility mark. The previous Order is revoked.

(See ACCOUNTANCY, November, 1942, page 37.)

#### PRICES OF GOODS AND SERVICES

No. 2113. *Toys (Maximum Prices and Records) Order, 1942.*

A manufacturer of toys may not charge more than the current price of September 30, 1942. Maximum percentage additions are prescribed for sales by wholesalers and retailers. Manufacturers must keep a book of account containing particulars of receipts and expenditure in respect of (a) materials and (b) sales of toys and materials, and also a record of current prices.

(See ACCOUNTANCY, September, 1942, page 217.)

#### TRADING WITH THE ENEMY

No. 2154. *Trading with the Enemy (Specified Persons) (Amendment) (No. 17) Order, 1942.*

Further amendments are made in the list of persons with whom dealings are prohibited.

(See ACCOUNTANCY, November, 1942, page 37.)

#### WAR DAMAGE

No. 1665. *War Damage (Business Scheme) (No. 9) Order, 1942.*

A form of policy and a standard policy are prescribed for laid-up sea-going ships.

(See ACCOUNTANCY, November, 1942, page 37.)

The Board of Trade have appointed Mr. P. Eke to be Assistant Registrar of Companies and Assistant Registrar of Business Names in place of Mr. A. D. Scott, promoted,

# Society of Incorporated Accountants

## INCORPORATED ACCOUNTANTS AS LORD MAYORS AND MAYORS

As recorded in our last issue, Alderman R. Duncan French, J.P., F.S.A.A., is Lord Mayor of Liverpool for the year 1942-3.

Mr. A. Chambers, F.S.A.A., has been elected Mayor of Worthing.

Alderman W. H. Charles, F.S.A.A., has been elected Mayor of Llanelli. He has been a member of the Borough Council since 1927, and last year was elected Chairman of the Education Committee. Alderman Charles is a past President of the Incorporated Accountants' District Society of Swansea and South-West Wales.

## COUNCIL MEETING

THURSDAY, NOVEMBER 19, 1942

*Present:* Mr. Richard A. Witty (President) in the chair, supported by other members of the Council, and Mr. A. A. Garrett (Secretary).

### SIR JAMES MARTIN MEMORIAL EXHIBITION

The Council resolved that the Sir James Martin Memorial Exhibition, in respect of the July, 1942, Intermediate Examination, be awarded to Mr. Norman Kirkman, Articled Clerk to Mr. G. E. Lamb, A.S.A.A., Messrs. Starkie & Naylor, Leeds.

### BRITISH RED CROSS AND ST. JOHN WAR ORGANISATION AND THE Y.M.C.A.

The Council resolved to contribute from the Society's funds a sum of 300 guineas to the British Red Cross Society and Order of St. John War Organisation, and 100 guineas to the Y.M.C.A., on behalf of all the members of the Society. The members will be asked at the annual general meeting in May, 1943, to confirm the action of the Council.

### BRANCHES AND DISTRICT SOCIETIES OVERSEAS

The Council adopted the following resolution, a copy of which was ordered to be forwarded to each Branch and District Society overseas:—

That the Council of the Society desires to place on record its high appreciation of the work of the Chairmen, Committees and Hon. Secretaries of the Branches and District Societies of Incorporated Accountants overseas and to send to each Committee a cordial expression of its thanks for the communication maintained with the Head Office of the Society during the difficult period of the war and its good wishes to the members of those Branches and District Societies who are serving with the Forces of the Allied Nations.

### RESEARCH COMMITTEE

A report was received that the Research Committee of the Society wished to resume its work, which had been temporarily suspended. The Council approved the report, and the work of the Research Committee will now proceed.

### DEATHS

The Secretary reported with regret the death of each of the following members: LAW, DOUGLAS EDWARD (*Associate*), Walsall. LUTKIN; FREDERICK (*Fellow*), Grimsby. MORRIS, WILLIAM THOMAS (*Fellow*), Sydney, Australia. PETTITT, SYDNEY ROBERT (*Fellow*), Bournemouth. PUGH, SIDNEY HARRATT (*Associate*), Nottingham. RADFORD, THOMAS SHILTON (*Associate*), Birmingham. SAUNDERS, GEORGE HENRY NORRIS (*Associate*), Colombo, Ceylon. SIMS, JONATHAN (*Associate*), Portsmouth. (*On active service*.) WHALLEY, FREDERICK EDEN (*Associate*), Nottingham. (*On active service*.)

## THE SOCIETY'S LIBRARY

The Library at Incorporated Accountants' Hall is still open to all Incorporated Accountants and members of Students' Societies and Sections. Most of the books may be borrowed, and these will be sent by post on request to any address in Great Britain or Ireland. Useful libraries are maintained by most of the Branches and District Societies, and it is hoped that full use will continue to be made of

these facilities, but the larger collection in London often provides a useful supplement to the resources of a Branch or District Society.

Copies are still available of the full printed catalogue, published in the summer of 1939, of the Library at Incorporated Accountants' Hall. The catalogue will be sent free of charge to any member or student. A large number of new books and new editions have been acquired in the last three years which are not included in the catalogue: this is especially true of the section devoted to taxation. But in most subjects the number of new works produced in wartime has been small, and the catalogue is still a useful guide to the literature of accountancy. It contains in addition the Regulations of the Library and a Foreword explaining the facilities available.

Wartime conditions have prevented the issue of any supplementary list of new accessions, but it is hoped to publish a supplement at a later date. In the meantime an up-to-date catalogue is always available for reference in the Library, and the Librarian will be pleased to supply particulars of books on any subject which are not included in the printed volume.

## PERSONAL NOTES

Messrs. Rickard & Co., Incorporated Accountants, advise that their London office is now 63, Coleman Street, London, E.C. They will carry on their practice in association with Mr. F. F. Shales, F.S.A.A., and Mr. W. G. Rose, A.S.A.A.

Messrs. Parker, Edwards & Co., Preston, have established a branch office at 11, Lowther Street, Whitehaven.

## REMOVAL

Messrs. R. Brooks & Co., Incorporated Accountants, announce a change of address to Adelaide House, London Bridge, London, E.C.

## OBITUARY

### SYDNEY ROBERT PETTITT

We regret to record that Mr. S. R. Pettitt, F.S.A.A., senior partner of Messrs. Pettitt, Maddox & Co., Incorporated Accountants, Bournemouth, died on November 2.

Mr. Pettitt had been a member of the Society of Incorporated Accountants since 1898, and was in public practice in Bournemouth during the whole of this period, in partnership first with Mr. Edward Bicker, F.S.A.A., and later with his son Mr. Donald S. T. Pettitt, F.S.A.A., and Mr. D. R. Maddox, F.S.A.A.

### ALEXANDER JOSEPH MAGENNIS

We regret to announce the death on November 17 of Mr. A. J. Magennis, M.Sc., F.S.A.A., a Past President of the Society of Incorporated Accountants in Ireland. Mr. Magennis was a partner in Messrs. Magennis, Burns, Griffin & Co., Cork. He had been in practice since 1910, and was previously for many years in the office of Messrs. Stapleton & Co. He became a member of the Society of Incorporated Accountants in 1900 and a Fellow in 1914, and held the office of President of the Irish Branch in 1922-23 and 1935-36. He was a member of the Senate of the National University of Ireland and of the Finance Committee of one of its associated colleges, University College, Cork, where he held the Chair of Accountancy. Mr. Magennis's associations with commerce included a directorship of the Commercial Insurance Company of Ireland, Ltd., and he had been President of the Cork Chamber of Commerce and Shipping, President of the Association of Chambers of Commerce of Eire, and Chairman of Cork Harbour Board.

### WILLIAM THOMAS MORRIS

We have learned with deep regret that Mr. W. T. Morris, F.S.A.A., Honorary Secretary of the New South Wales Committee of the Society of Incorporated Accountants, died on August 18. Mr. Morris was a partner in Messrs. Priestley and Morris, Sydney. He was 64 years of age, and had been a member of the Society since 1905. He became Honorary Secretary of the New South Wales Branch in 1929.